FORM 10-Q. - QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

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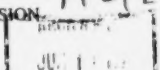
C-35830

Washington, D.C. 20549



FORM 10-Q

(Mark One)

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the period ended April 30, 1992.

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

NATIONAL HEALTH ENHANCEMENT SYSTEMS, INC.
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	86-0460312 (I.R.S. Employer Identification Number)
Suite 1750 3200 North Central Avenue Phoenix, Arizona (Address of principal executive offices)	85012 (Zip Code)

Registrant's telephone number, including area code: (602) 230-7575

Securities registered pursuant to Section 13 or 15(d) of the Act:

NONE

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK $.001 PAR VALUE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ].

The number of shares of the Registrant's Common Stock outstanding at June 3, 1992 was 1,639,890 Shares.

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NATIONAL HEALTH ENHANCEMENT SYSTEMS, INC.

INDEX TO FORM 10-Q

	PAGE NO.
PART I. FINANCIAL INFORMATION	
ITEM 1. Financial Statements	
Balance sheets at April 30, 1992, and January 31, 1992	3
Statements of Operations for the three months ended April 30, 1992 and 1991	4
Statements of Cash Flows for the three months ended April 30, 1992 and 1991.	5
Notes to Financial Statements	6
ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.	8
PART II. OTHER INFORMATION	
ITEM 6. Exhibits and Reports on Forms 8-K	11

NATIONAL HEALTH ENHANCEMENT SYSTEMS, INC.

BALANCE SHEETS – APRIL 30, AND JANUARY 31, 1992

ASSETS	April 30, 1992	January 31, 1992
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	$ 635,782	$ 620,233
Accounts receivable, less allowance for doubtful accounts of $199,700 and $178,000 respectively	2,056,071	1,642,262
Prepaid expenses and supplies	135,783	148,088
Total current assets	2,827,636	2,410,583
CAPITALIZED SOFTWARE DEVELOPMENT COSTS, less accumulated amortization of $266,232 and $210,158 respectively	80,180	97,245
PROPERTY AND EQUIPMENT:		
Computer equipment	274,111	229,648
Office furniture and equipment	191,194	191,194
Leasehold improvements	25,525	25,525
Total property and equipment	490,830	446,367
Less – accumulated depreciation and amortization	(345,929)	(332,388)
Net property and equipment	144,901	113,979
	$ 3,052,717	$ 2,621,807

LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current installments of notes payable (Note 2)	$ 282,529	$ 170,527
Accounts payable	628,672	547,970
Accrued liabilities (Note 3)	556,439	513,447
Deferred revenues (Note 4)	718,803	589,962
Total current liabilities	2,186,443	1,821,906
NOTE PAYABLES, excluding current installments (Note 2)	41,522	12,140
DEFERRED REVENUES (Note 4)	48,700	48,700
COMMITMENTS	–	–
STOCKHOLDERS' EQUITY		
Preferred stock, $1 per value, 1,000,000 shares authorized, none issued	–	–
Common stock, $.001 par value, 5,000,000 shares authorized, 1,644,780 shares issued	1,645	1,645
Capital contributed in excess of par value	2,792,749	2,792,749
Accumulated deficit	(2,006,368)	(2,043,359)
Less treasury stock, 4,900 shares at cost	(9,974)	(9,974)
Net stockholders' equity	778,052	741,061
	$ 3,052,717	$ 2,621,807

NATIONAL HEALTH ENHANCEMENT SYSTEMS, INC.

STATEMENTS OF OPERATIONS

	Three Months Ended April 30,	
	1992	1991
REVENUES:		
License fees	$ 1,018,397	$ 810,100
Support fees and material sales	557,679	384,827
Other	27,211	53,910
Total revenues	1,603,287	1,248,837
OPERATING EXPENSES:		
Cost of initial license materials	194,667	96,877
Cost of materials sold	179,828	104,696
Selling, product support and development	915,683	745,963
General and administrative	226,879	200,957
Depreciation and amortization	32,738	40,677
Provision for doubtful accounts	16,700	41,744
Total operating expenses	1,566,295	1,230,914
Income before income taxes and extraordinary items	36,992	17,923
Income taxes	15,907	7,707
Income before extraordinary item	21,085	10,216
Extraordinary item – utilization of net operating loss carry forward	15,907	7,707
NET INCOME	$ 36,992	$ 17,923
Net income per common share:		
Income before extraordinary item	$0.01	$0.01
Income from extraordinary item	$0.01	$0.00
TOTAL NET INCOME PER COMMON SHARE	$0.02	$0.01
WEIGHTED AVERAGE SHARES OUTSTANDING	1,709,545	1,639,815

See accompanying notes to the financial statements.

NATIONAL HEALTH ENHANCEMENT SYSTEMS, INC.

STATEMENTS OF CASH FLOW

	Three Months Ended April 30,	
	1992	1991
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income	$ 36,992	$ 17,923
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	32,738	40,877
Provision for doubtful accounts	16,700	41,744
(Increase) decrease in accounts receivable	(430,509)	(484,173)
(Increase) decrease in prepaid expenses and supplies	12,305	(34,840)
Increase (decrease) in accounts payable	80,702	200,242
Increase (decrease) in accrued liabilities	42,992	76,047
Increase (decrease) in deferred revenues	128,841	11,152
Net cash used by operating activities	(79,239)	(111,028)
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(4,464)	(6,601)
Increase in capitalized software development costs	(1,685)	(13,380)
Net cash used in investing activities	(6,149)	(19,981)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable	105,000	(40,354)
Principal payments on capital lease obligation	(4,063)	(4,135)
Net cash used in financing activities	100,937	(44,489)
NET DECREASE IN CASH AND CASH EQUIVALENTS	15,549	(175,998)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	620,233	579,078
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 635,782	$ 403,080

Supplemental disclosure of noncash investing and financing activities:

In April 1992 the Company leased certain computer equipment for approximately $40,000

NATIONAL HEALTH ENHANCEMENT SYSTEMS, INC.
Notes to the Financial Statements

Note 1

The financial statements of National Health Enhancement Systems, Inc. (the "Company") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of the Company, the accompanying unaudited financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly its financial position, the results of its operations, and the statement of cash flows for the periods presented.

Certain financial statement items from prior periods have been reclassified to be consistent with current period financial statement presentation. It is suggested that these financial statements be read in conjunction with the financial statements and the related disclosures contained in the Company's Annual Reports on Form 10-K filed for the fiscal year ended January 31, 1992 with the Securities and Exchange Commission.

The results of operations for the period ended April 30, 1992, are not necessarily indicative of the results to be expected for the full fiscal year.

Note 2

(2) **NOTES PAYABLE:**

	April 1992	January 1992
Bank line of credit, interest payable monthly (see below)	$ 270,000	$165,000
Other, principal and interest payable monthly through 1995 at rates of approximately 13% to 15%	54,051	17,667
	324,051	182,667
Less Current installment	(282,529)	(170,527)
	$ 41,522	$ 7,599

Subsequent to fiscal year-end the bank line of credit in the amount of $165,000 was paid in full. In March 1992, in connection with negotiations with another bank, the Company cancelled the $200,000 bank line of credit which was secured by a certificate of deposit. The Company negotiated an available $300,000 line of credit with another bank. The new line of credit bears interest at prime plus 1% payable monthly, is due on demand, and is secured by a combination of accounts receivable and compensating cash balances. The compensating cash balance is equal to fifty percent (50%) of the amount borrowed by the Company. On April 30, 1992, the compensating cash balance was $135,000.

Future maturities of notes payable are as follows as of April 30, 1992:

1993	$ 282,529
1994	20,761
1995	20,761
	$ 324,051

Note 3

Accrued Liabilities consist of the following:

	April 30, 1992	January 31, 1992
Accrued Payroll & Commission	$ 379,003	$ 310,700
Accrued Vacation	95,776	89,777
Other Accrued Liabilities	81,660	104,970
	$ 556,439	$ 513,447

Note 4

Deferred Revenues

Deferred revenues at April 30, 1992 and January 31, 1992 of $718,803 and $589,962 respectively, consist of the prepayment of support fees and materials by licensees. Revenues for the support fees are being recognized over a 12-month period, and revenues for materials are being recognized based upon usage.

ITEM 2

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

For the quarter ended April 30, 1992, the Company had net income of $36,992, compared to net income of $17,923 for the quarter ended April 30, 1991.

Total revenue increased by approximately 28%, while total operating expenses increased by approximately 27%. The improved operating performance during the quarter ended April 30, 1992, compared to the quarter ended April 30, 1991, can be primarily attributed to increased revenues generated from the Centramax(R), The Professionals(R) and Heart Direct products.

Total revenues increased to $1,603,287 for the quarter ended April 30, 1992 from $1,248,837 for the quarter ended April 30, 1991. The increase of $354,450 was attributed to increases in revenues generated from both license fees and support fees and material sales.

Revenues generated from the Centramax, The Professionals and Heart Direct products during the quarter ended April 30, 1992, accounted for approximately 47% of the Company's total revenue, compared to 33% of the Company's total revenue during the quarter ended April 30, 1991. In addition, revenues from Centramax, The Professionals and Heart Direct products primarily accounted for the increase in revenue during the quarter ended April 30, 1992 compared to revenues generated during the quarter ended April 30, 1991. License fee revenue from the sale of the Patient Acquisition System(TM) (PAS) and Referral One(TM) products for the quarter ended April 30, 1992 accounted for 20% of the Company's total revenue, compared to 23% of the Company's total revenue during the quarter ended April 30, 1991.

License fees represent revenues from the initial sale of the Company's products: Centramax, Centramax Plus, The Professionals, the Patient Acquisition System (TM) ("PAS") (which includes eight health screening and education products) Referral One(TM), Heart Direct(TM) and Personal Fitness Profile(TM). Revenue from license fees increased to $1,018,397 for the quarter ended April 30, 1992, from $810,100 for the quarter ended April 30, 1991. This increase of $208,297 is primarily attributable to an increase in the number of The Professionals licenses granted for the quarter ended April 30, 1992, compared to the quarter ended April 30, 1991. The Company sold five Professionals licenses during the quarter ended April 30, 1992, compared to the sale of three The Professionals licenses during the quarter ended April 30, 1991. License fees from the Centramax product increased to $168,000 for the quarter ended April 30, 1992 from $131,000 for the quarter ended April 30, 1991. License fees from the Centramax Plus product decreased to $65,000 for the quarter ended April 30, 1992 from $100,000 for the quarter ended April 30, 1991. License fees from the sales of the PAS product increased to $274,147 for the quarter ended April 30, 1992 from $248,350 for the quarter ended April 30, 1991. Due to the fact that the PAS is offered on an exclusive basis, the number of available markets for the PAS product has decreased during the past three years. The Company's management believes, however, markets for the PAS product are still available and therefore, the PAS product will continue to generate license fee revenue in the foreseeable future.

Support fees and material sales revenue was $557,679 for the quarter ended April 30, 1992, compared to $384,827 for the quarter ended April 30, 1991. Recurring support fees represent charges to the Company's licensees, as provided for in the Company's license agreements, for ongoing software maintenance and enhancement to the products. The support fees generally begin within six months after a customer executes a license agreement. Revenue generated from support fees increased to $308,695 for the quarter ended April 30, 1992 from $196,271 for the quarter ended April 30, 1991. The increase in revenue from support fees of $112,424 is primarily the result of the increase in the number of customers. The Company believes that as the number of customers it has for all products increases, revenues generated from support fees will continue to increase. Revenues generated from the sale of materials increased to $248,985 for the quarter ended April 30, 1992 from $188, 56. Material sales represent the sale of printed questionnaires and reports from the Company's PAS and Heart Direct products. The increase in the sale of materials of $60,429 is due to revenue generated from the Company's Heart Direct product which the Company began marketing in April 1991. The Company earns revenue from the quarterly publication of the Heart Direct product. The Company believes that the revenues associated with the Heart Direct product will continue to increase in the foreseeable future.

Other revenue decreased to $27,211 for the quarter ended April 30, 1992 from $59,910 for the quarter ended April 30, 1991. The decrease of $26,699 is due to a decrease in revenue generated from the data entry of questionnaires from the PAS product. Revenues generated from this service provided by the Company does not constitute a material amount of the Company's revenue.

Total operating expenses increased to $1,566,295 for the quarter ended April 30, 1992 from $1,230,914 for the quarter ended April 30, 1991. The increase of $335,381 is due primarily to the increase in certain variable costs associated with increased licenses granted (such as the cost of initial license fee materials and an increase in certain selling expenses such as commissions). In addition to the increase in the cost of variable expenses associated with the increasing number of licenses granted, certain product support expenses also increased due to an increase in the Company's customer base and related product support obligations.

The cost of initial license materials increased to $194,667 for the quarter ended April 30, 1992 from $96,877 for the quarter ended April 30, 1991. The increase of $97,790 is due to an increase in variable costs associated with the increased sales of The Professionals and Centramax products.

Cost of materials sold-which includes the cost of printed report forms and questionnaires sold to PAS licenses and the costs of materials associated with the Heart Direct product-increased to $179,828 for the quarter ended April 30, 1992 from $104,696 for the quarter ended April 30, 1991. The increase of $75,132 is a result of costs of materials associated with the Heart Direct product.

Selling, product support and development expenses increased to $915,683 for the quarter ended April 30, 1992 from $745,963 for the quarter ended April 30, 1991. The increase of $169,720 is primarily attributable to increased commissions earned on increased revenue from license fees and an increase in the Company's payroll and related payroll expense as a result of an increase in its sales and product support staff. Commissions increased to $164,334 for the quarter ended April 30, 1992 from $137,428 for the quarter ended April 30, 1991. The sales staff and customer and product support staff increased to thirty-nine individuals during the quarter ended April 30, 1992 from thirty-one individuals during the quarter ended April 30, 1991. Primarily as a result of these additions in staff, payroll expenses increased to $479,152 for the quarter ended April 30, 1992 from $349,436 for the quarter ended April 30, 1991. The Company anticipates that during its current fiscal year additional product support staff will be needed to service an expanding customer base. The Company will add staff as it deems necessary. As a result of increased staffing requirements the Company anticipates that its operating expenses will also increase.

General and administrative and general operating expenses increased to $226,679 for the quarter ended April 30, 1992 from $200,957 for the quarter ended April 30, 1991. The increase of $25,722 is attributable to general inflationary increases and to general increases in office space rent, professional liability insurance and other general operating expenses.

Depreciation and amortization expense decreased to $32,738 for the quarter ended April 30, 1992 from $40,677 for the quarter ended April 30, 1991. The decrease of $7,939 is due to a decrease in the software amortization costs associated with certain products that have been fully amortized.

The Company has recently developed a voice response product which is currently in the final testing stage. The Company expects the voice response product to be available for sale later this year. The voice response product will initially be sold and marketed to hospitals. The voice response product permits a hospital to offer general health education information to the general public or other users via use of a touch-tone telephone. The Company believes that this product offers several advantages to hospitals. Currently, the forecasted revenues from the voice response product are not expected to be material.

Liquidity and Capital Resources

As of April 30, 1992, the Company had working capital (current assets minus current liabilities) of $640,101, compared to working capital of $588,677 as of January 31, 1992. The increase in working capital of $51,424 at April 30, 1992 from January 31, 1991 is primarily the result of the Company's improved income from operations. The Company's accounts receivable balance has increased to $2,056,071 at April 30, 1992 from $1,642,262 at January 31, 1992. The increase of $413,809 is due to an increase in receivables, consisting of license fee revenue from sales of the Company's PAS, The Professionals, Centramax, Centramax Plus, Referral One and Heart Direct products. The Company continues to experience that payment of some or all of the initial license fees of the PAS, The Professionals, Centramax, Centramax Plus, Referral One and Heart Direct products is deferred, on a negotiated basis, for a period after the license agreements are executed and the Company expects its accounts receivable balance for the foreseeable future to continue to increase proportionally to the related increases in license fee revenues. The Company believes that payment of the initial license fees of the PAS, The Professionals, Centramax, Centramax Plus, Referral One and Heart Direct products will be received approximately 90 to 120 days after execution of the product license agreements.

As a result of the increase in the initial fee receivables, the Company was able to secure a line of credit of a $300,000 line of credit with a bank. Borrowings against this credit line will be secured by accounts receivable and a compensating bank balance equal to fifty percent (50%) of the amount drawn on the credit line. Interest is due monthly on the unpaid balance at a rate equal to one percentage point above the bank's prime rate. In April 1992, the Company borrowed $270,000 against its credit line which has subsequently been paid.

The Company has experienced improvement in operating results, working capital and financial position; however, the operating results continue to be inconsistent on a month-to-month basis and are vulnerable to turnover or nonperformance of the Company's sales staff, long product sales cycles related in part to pricing of the Company's products and customer budget requirements, and to other factors, such as economic conditions, beyond the control of the Company. There can be no assurance that improved operating performance will continue. The Company, however, will continue to evaluate methods to improve and increase its product distribution channels as well as to enhance or expand its current product line. The Company believes that such actions will help minimize the effect of circumstances which could adversely affect the Company's operating performance.

The Company continues to focus its efforts on improving and increasing its operating income. The Company's management believes that quarterly operating results are dependent on the license fee revenues generated from the sale of PAS, The Professionals, Centramax Plus, Centramax, Referral One, or Heart Direct products. The recurring monthly revenue from support fees and the sale of materials is not currently sufficient to maintain a break-even level of operations. The Company's management believes that revenues from license fees for PAS, The Professionals, Centramax, Centramax Plus, Referral One and Heart Direct products and recurring revenue from support fees and material sales will continue to provide cash for foreseeable working capital needs. Additional support staff requirements and related operating expenses will be dependent on sales levels of the Company's PAS, The Professionals, Centramax, Centramax Plus, Referral One and Heart Direct products. The Company expects that additional staff will be hired during its current fiscal year (ending January 31, 1993).

On March 2, 1992 NASDAQ revised its maintenance standards and on March 6, 1992, the Company received notice from NASDAQ that it did not meet the new $1,000,000 capital and surplus maintenance requirements. The Company has requested a temporary exception to be considered by the NASDAQ Qualifications Committee. The Company has received notice from NASDAQ of a scheduled hearing to be held on either June 22 or June 23. The Company is currently evaluating its options with respect to the NASDAQ compliance issue, including the potential of raising additional capital.

In each of its fiscal years ended January 31, 1992, 1991 and 1990, the Company offered a discount to its PAS users to prepay monthly support fees for a one-year period. In each of these fiscal years, the Company generated a minimum of $200,000 in cash from the prepayment program. In April 1992, the Company elected to continue its prepaid support fee program for another year. Cash from this prepayment program will be recognized as revenue over a 12-month period.

PART II. OTHER INFORMATION

ITEM 6. Exhibits and Reports on Form 8-K

a. Exhibits required by Item 601 of Regulation S-K.
NONE

b. No reports on form 8-K have been filed during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

National Health Enhancement Systems, Inc.
(Registrant)

Date: June 11, 1992

Gregory J. Petras, President and Chief Executive Officer

Date: June 11, 1992

Jeffrey D. Zywicki, Vice President Finance and Treasurer